

TABLE 19

**Additional Residential Lines
for Households with Telephone Service
(End-of-year data in millions)**

Year	Loops 1/			Households with Telephone Service 2/	Additional Residential Lines	Percentage of Additional Lines for Households with Telephones
	Residential	Non- Residential	Total Loops			
1988	87.7	38.5	126.2	85.4	2.3	2.7 %
1989	90.0	40.6	130.6	87.4	2.6	3.0
1990	92.2	42.9	135.1	88.4	3.9	4.4
1991	95.9	42.5	138.4	89.4	6.5	7.3
1992	99.3	43.0	142.3	91.0	8.3	9.2
1993	101.9	45.2	147.1	93.0	8.8	9.5
1994	105.2	47.2	152.4	93.7	11.5	12.3
1995	108.1	50.4	158.5	94.2	13.9	14.7

Source: FCC staff estimates.

- 1/ Total loops are from the Universal Service Fund subscriber line counts provided by the National Exchange Carrier Association. The Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands totals have been removed. Total loops have been divided between residential and non-residential using the ratio of residential to non-residential access lines reported in *Statistics of Communications Common Carriers*. Those totals also exclude Puerto Rico, but cover only the carriers that file ARMIS reports (of which there are none for the Northern Mariana Islands and the U.S. Virgin Islands).
- 2/ Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

Number of Households with Additional Lines by State

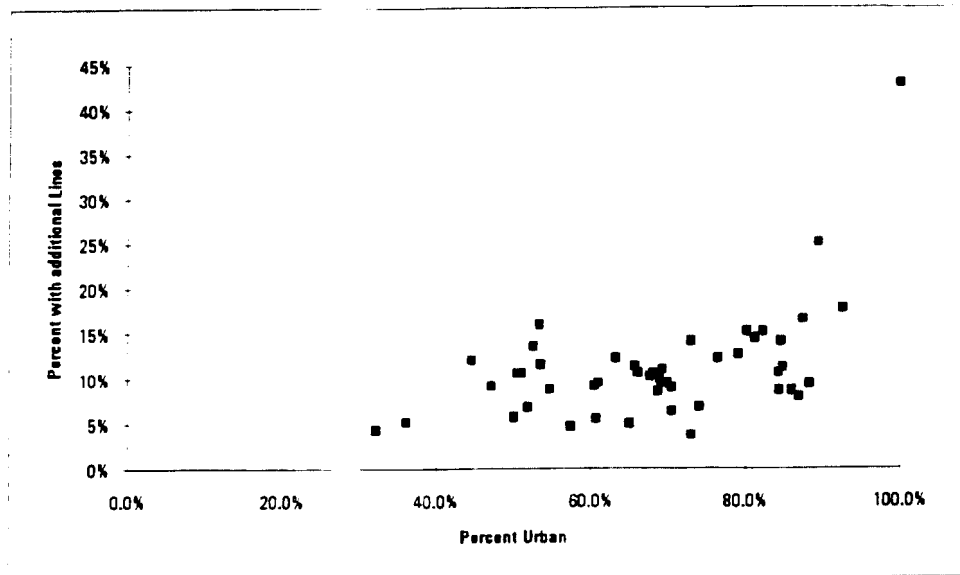
State	Percent of Households with Additional Lines	Standard Error	Number of Households with Additional Lines	Sample Size	Percent Urban 1980
AL	9.1%	2.3%	14	154	60.4%
AR	11.6%	3.3%	11	95	53.5%
AZ	16.4%	2.5%	37	225	87.5%
CA	17.6%	1.3%	156	886	92.6%
CO	15.1%	2.6%	29	192	82.4%
CT	12.6%	3.3%	13	103	79.1%
DC	42.9%	13.2%	6	14	100.0%
DE	3.7%	3.6%	1	27	73.0%
FL	11.2%	1.3%	66	591	84.8%
GA	12.3%	2.6%	20	163	63.2%
IA	5.6%	1.7%	10	180	60.6%
ID	4.7%	2.6%	3	64	57.4%
IL	14.0%	1.7%	60	429	84.6%
IN	4.9%	1.4%	11	226	64.9%
KS	9.5%	2.6%	12	126	69.1%
KY	6.8%	1.9%	12	177	51.8%
LA	10.6%	2.4%	17	160	68.1%
MA	8.6%	1.9%	18	209	84.3%
MD	14.4%	2.6%	27	188	81.3%
ME	12.0%	3.8%	9	75	44.6%
MI	9.0%	1.4%	38	424	70.5%
MN	9.5%	1.7%	27	283	69.9%
MO	8.5%	2.0%	17	199	68.7%
MS	9.1%	3.3%	7	77	47.1%
MT	13.6%	4.5%	8	59	52.5%
NC	10.6%	1.9%	28	264	50.4%
ND	15.9%	5.5%	7	44	53.3%
NE	10.7%	3.4%	9	84	66.1%
NH	10.6%	4.5%	5	47	51.0%
NJ	25.0%	2.8%	58	232	89.4%
NM	14.1%	4.3%	9	64	73.0%
NV	9.3%	4.4%	4	43	88.3%
NY	10.6%	1.1%	82	774	84.3%
OH	6.8%	1.2%	32	470	74.1%
OK	10.2%	2.6%	14	137	67.7%
OR	6.4%	1.9%	10	157	70.5%
PA	10.0%	1.1%	71	710	68.9%
RI	8.6%	4.7%	3	35	86.0%
SC	8.8%	2.4%	12	137	54.6%
SD	5.7%	3.2%	3	53	50.0%
TN	9.5%	1.8%	26	274	60.9%
TX	15.2%	1.6%	77	507	80.3%
UT	7.8%	2.7%	8	102	87.0%
VA	11.0%	2.0%	27	245	69.4%
VT	4.3%	4.3%	1	23	32.2%
WA	12.2%	2.3%	24	197	76.4%
WI	11.4%	1.6%	47	412	65.7%
WV	5.2%	2.3%	5	96	36.1%
WY	5.0%	4.9%	1	20	65.0%
Total	11.4%	0.3%	1,192	10,453	

Tabulated by Jim Eisner using data from the 1995 Bill Harvesting

	Percent Excess Residential Loops	Percent Urban Population, 1990
ALABAMA	10.7%	60.4%
ALASKA	26.7%	67.5%
ARIZONA	11.5%	87.5%
ARKANSAS	4.1%	53.5%
CALIFORNIA	19.0%	92.6%
COLORADO	16.8%	82.4%
CONNECTICUT	5.9%	79.1%
DELAWARE	13.8%	73.0%
DIST. OF COLUMBIA	28.8%	100.0%
FLORIDA	24.5%	84.8%
GEORGIA	21.5%	63.2%
HAWAII	15.0%	89.0%
IDAHO	11.7%	57.4%
ILLINOIS	12.8%	84.6%
INDIANA	8.5%	64.9%
IOWA	6.7%	60.6%
KANSAS	10.4%	69.1%
KENTUCKY	5.1%	51.8%
LOUISIANA	14.9%	68.1%
MAINE	17.9%	44.6%
MARYLAND	7.0%	81.3%
MASSACHUSETTS	19.9%	84.3%
MICHIGAN	14.7%	70.5%
MINNESOTA	3.6%	69.9%
MISSISSIPPI	5.4%	47.1%
MISSOURI	10.2%	68.7%
MONTANA	8.8%	52.5%
NEBRASKA	5.2%	66.1%
NEVADA	17.1%	88.3%
NEW HAMPSHIRE	18.9%	51.0%
NEW JERSEY	39.5%	89.4%
NEW MEXICO	14.5%	73.0%
NEW YORK	19.0%	84.3%
NORTH CAROLINA	16.2%	50.4%
NORTH DAKOTA	20.4%	53.3%
OHIO	7.9%	74.1%
OKLAHOMA	9.3%	67.7%
OREGON	4.5%	70.5%
PENNSYLVANIA	13.7%	68.9%
RHODE ISLAND	12.6%	86.0%
SOUTH CAROLINA	10.3%	54.6%
SOUTH DAKOTA	7.4%	50.0%
TENNESSEE	14.8%	60.9%
TEXAS	16.9%	80.3%
UTAH	16.1%	87.0%
VERMONT	16.7%	32.2%
VIRGINIA	8.7%	69.4%
WASHINGTON	10.2%	76.4%
WEST VIRGINIA	3.9%	36.1%
WISCONSIN	16.1%	65.7%
WYOMING	4.7%	65.0%
UNITED STATES	14.7%	75.2%

Source: Alex Belinfante's Estimates for 1995

The Relationship Between the Percent Urban and Percent with Additional Lines by State



Source: Tabulated by Jim Eisner using data from the 1995 Bill Harvesting

Regression Statistics

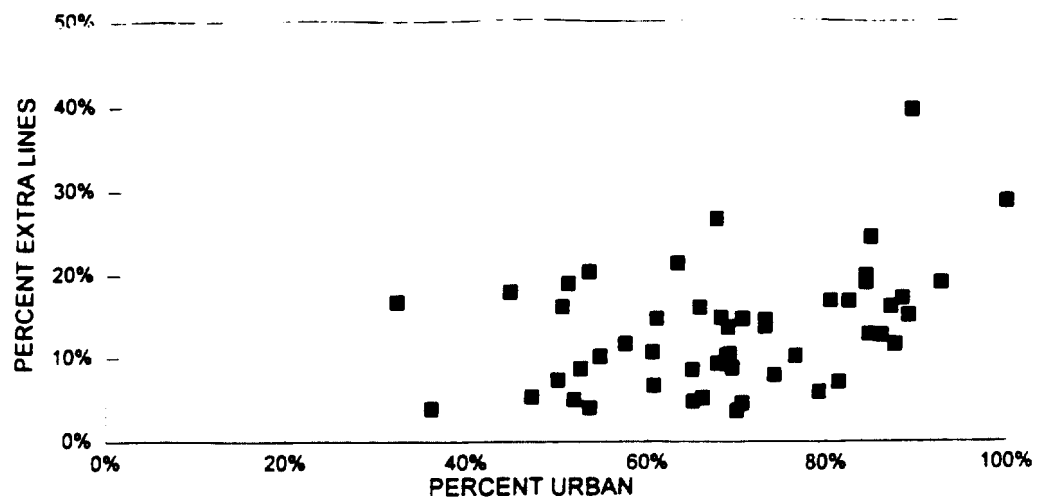
Multiple R	0.504817304
R Square	0.254840511
Adjusted R Square	0.238986054
Standard Error	0.053439349
Observations	49

Analysis of Variance

	df	Sum of Squares	Mean Square	F	Significance F
Regression	1	0.045902824	0.045902824	16.07375	0.00021644
Residual	47	0.134220908	0.002855764		
Total	48	0.180123731			

	Coefficients	Standard Error	t Statistic	P-value	Lower 95%
Intercept	-0.029184477	0.035498036	-0.822143431	0.415061	-0.100597247
x1	0.203145543	0.050669749	4.009207593	0.000212	0.101211252

Source: Tabulated by Jim Eisner using data from the 1995 Bill Harvesting



Regression Output:

Constant	0.010092
Std Err of Y Est	0.066532
R Squared	0.146056
No. of Observations	51
Degrees of Freedom	49
Correlation	0.382173
X Coefficient(s)	0.179297
Std Err of Coef.	0.061934
t-statistic	2.894962

Source: Alex Belinfante



News center

Customers in our Communities at U S WEST

October 27, 1997

Dave Banks,
303-896-3040

U S WEST COMMUNICATIONS REPORTS CONTINUED SOLID EARNINGS AS IT ROLLS OUT NEW PRODUCTS INCLUDING FIRST-IN-THE-NATION PCS SERVICE

- Improving Revenues Lead to Double-Digit EPS Growth -

ENGLEWOOD, Colo. - Fueled by healthy revenue growth, U S WEST Communications Group (NYSE: USW) today reported a normalized third quarter earnings per share increase of nearly 12 percent. The company achieved this while absorbing costs related to the rollout of its first-in-the-nation "one number" PCS product, as well as accelerated spending for mandated interconnection and number portability to help foster local competition.

Operating revenues - driven largely by increased sales for local and data networking services, and custom calling features - were up 6.3 percent, the highest quarterly growth rate so far this year. Normalized income for the quarter grew 13.5 percent to \$320 million from \$282 million in third quarter 1996. Normalized earnings per share rose to \$0.66 for the quarter, up from \$0.59 in third quarter 1996.

Results for the quarter were normalized for a \$19 million one-time, after-tax gain associated with the sale of selected rural exchanges in Minnesota. Results for the quarter were also normalized to reflect a \$3 million one-time, after-tax cost associated with calling of liquid yield option note debt. Results for third quarter, 1996 were normalized to reflect the effects of a change in accounting principle and a one-time, after-tax gain associated with the sale of selected rural exchanges in Utah.

In a separate announcement today, U S WEST, Inc., said that it intends to split U S WEST Communications Group and U S WEST Media Group (NYSE: UMG) into separate public companies in the second half of 1998. Since November 1995, the two groups have traded as distinct classes of "target" stock of U S WEST, Inc.

"This is a great move for shareowners and customers of both groups," said Richard McCormick, chairman and CEO of U S WEST, Inc. "Creating independent companies will make it easier for both businesses to pursue exciting new opportunities."

"We continue to achieve excellent results financially, operationally and in the regulatory arena," said Sol Trujillo, president and chief executive officer of U S WEST Communications Group. "We accelerated revenue growth, even at a time of increased competition and spending to fund growth initiatives. We continued to keep costs in check, and made significant progress leveling the playing field in the regulatory arena. And, most important for our customers, we demonstrated the real value of integrated telecommunications, with the successful rollout of our new, one-number PCS service."

"Access2 Advanced PCS from U S WEST" rolled out in Denver on September 23. With this first-in-the-nation product, customers can get the benefits of one-number calling by choosing to use their wireless phone as an extension of their primary home or business line. Customers can also choose to have integrated voice mail, a single bill for both wireless and wireline services, and can order services through a single sales channel. Rollout of Access2 - the first integrated wireless PCS service in the nation - into two additional markets is

- the first integrated wireless PCS service in the nation - into two additional markets is slated for the next four months.

Trujillo said investors should also be pleased with the company's recent performance on the regulatory front. He called the U.S. 8th Circuit Court's October 16 decision on re-bundling of network services a "major win for our customers and for us." This decision prevents potential local-telephone competitors from arbitraging between resale and unbundled element prices by forcing U S WEST to re-combine individual network elements sold at "unbundled" element costs. Additionally, Trujillo cited favorable progress on state regulatory matters in Arizona, Idaho, Minnesota and Washington.

Other third quarter highlights include:

Volumes and Penetration:

- The addition of 663,000 access lines (adjusted for the sales of selected rural exchanges) over the past twelve months for an access-line growth rate of 4.3 percent. On an adjusted basis, business access lines grew at 5.7 percent; residential access lines grew at 3.8 percent; and residential additional lines grew 28.2 percent, reaching a second-line penetration level of 12.9 percent.
- Residential penetration levels for the company's most popular custom calling features reached all-time highs: Caller ID, 28 percent (2nd highest in the industry); Voice Messaging, 19 percent (tops in the industry); and Call Waiting, 39 percent.
- The company has sold more than 175,000 Home Receptionist and Business Receptionist Screen Phones, making it the industry leader in sales of that product. These phones visually and functionally integrate a number of custom calling services, and increase the penetration of these vertical services.
- Completed regionwide deployment of 3-way Calling Pay-Per-Use. This product is an example of growing revenues through usage-based pricing.

Sales and Revenues:

- Local service revenues grew 8.8 percent - their highest level of growth since fourth quarter, 1996.
- A 25 percent increase in private line and special access revenues, which totaled \$217 million for the third quarter -- a reflection of the company's growing data networking services business and its ability to successfully compete in one of the most highly competitive segments of the telecommunications market.
- Total vertical services revenue - including not only custom calling services such as call waiting, but also voice messaging and Caller ID (CLASS) services - are up 20 percent from third quarter 1996 to about \$290 million. Those revenues now represent 11 percent of total revenues.
- Completed the sale of rural exchanges that were announced in 1993. Since then, the company sold some 342,000 access lines - about 2 percent of its total access lines - in all 14 states. Total proceeds from these sales were over \$1 billion.

Additional Product and Brand Initiatives:

- The continuing 1997 rollout of National Directory Assistance to six of the company's 14 states and in Portland, Ore. National DA service allows customers to obtain phone numbers anywhere in the U. S. simply by calling 1-411. U S WEST Communications continues to be the leader among the RBOCs with National DA in terms of geographic coverage and speed to market. In each market introduction, customer response has exceeded objectives by more than 200 percent.
- U S WEST Communications announced its selection as the official local wired and wireless telecommunications provider of the 2002 Winter Olympic Games in Salt Lake City, Utah.

- The company's data networking division rolled out a new Internet-based, electronic commerce service that helps retailers create an electronic storefront on the Web. Soon, it will launch the first commercially available "DSL" (digital subscriber line) data networking access service in the nation as well as a high-speed Internet access service for consumers and small businesses.
- On the small business side, sales of Centrex 21 - the company's enhanced Centrex product - tripled during the quarter, bringing total sales to more than 102,000 units.

Costs and Margins:

- Absorbed approximately \$75 million year-to-date in expenses and approximately \$115 million year-to-date in capital related to interconnection and number portability. The company expects to significantly increase spending on interconnection for the balance of 1997 and into 1998.
- Growth in cash provided by operating activities of 23 percent, or \$535 million, and even stronger growth in net cash flow, enabled the company to reduce its borrowing levels by over \$745 million during the first nine months of the year.

Trujillo added that the company is on plan with its 1997 earnings and operational objectives.

U S WEST Communications (NYSE: USW) provides a full range of telecommunications services - including wireline, wireless PCS and data networking - to more than 25 million customers in 14 western and midwestern states. The company is one of two major groups that make up U S WEST, a company in the connections business, helping customers share information, entertainment and communications services in local markets worldwide. U S WEST's other major group, U S WEST Media Group, is involved in domestic and international cable and telephony, wireless communications, and directory and information services.

[Safe Harbor statement: This document contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Discussion of factors that may affect future results is contained in our recent filings with the Securities and Exchange Commission.]

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Pacific Telesis

I N S I D E L I N E

NEWS UPDATES FOR THE FINANCIAL COMMUNITY

STRONG GROWTH AHEAD FOR PACIFIC BELL

Discussed in this issue of Inside Line . . .

Strong Competitive Position ° Unprecedented Growth ° Innovative Marketing ° Demand for Data Services ° Strong Brand Equity ° The Internet Opportunity ° World's Best Long Distance Market ° Positive Public Policy Changes °

On a July 8 visit to New York City, Pacific Bell

President Dave Dorman gave investment analysts a firsthand view of the company's strengths and opportunities in the California telecommunications market. He focused on Pacific Bell's core business -- voice and data -- and the soon-to-open long distance market. This issue of Inside Line summarizes Dorman's comments to the investment community.

Strong Competitive Position



Dave Dorman,
Chairman, President and
Chief Executive Officer,
Pacific Bell

The first six months of 1996 show Pacific Bell's core business is healthy and performing well in California's competitive marketplace. New marketing campaigns and a rebounding California economy created unprecedented demand for new access lines, and gave new custom calling services like "pay-per-use" Call Return a strong start in the marketplace. "Pacific Bell subsidiaries expanded into new markets, such as Internet access and network integration, and took the necessary steps to bring us closer to entering the long distance market," Dorman said. He added that the company is optimistic about changes in the public policy and regulatory environment.

Changes set in motion so far this year position Pacific Bell as a strong growth company in the years ahead, in a constantly changing and rapidly growing communications industry. "We added a number of marketing leaders with significant long-distance experience at officer levels and below, complementing the existing strengths of our veterans," Dorman said. "Their combined experiences are manifesting themselves with demonstrated success in doing business in new ways, in new markets."

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Unprecedented Growth

"We've seen a dramatic turn around in access line growth in California," Dorman told analysts. "Based on trends so far, we expect 1996 to be a very good year, comparable to our all-time highs during California's boom-time." During the first five months of 1996, Pacific Bell added 368,000 new customer lines -- 132 percent more than the incremental average for the same period over the past five years. So far, two-thirds of the new lines in 1996 serve residential customers.

Through targeted promotions in the consumer market, Pacific Bell has maintained its lead among regional Bell operating companies (RBOCs) in customers with two or more lines. Today, nearly 20 percent of Pacific Bell's residential customers have more than one access line - compared to 14 percent for the next closest RBOC. During the first five months of 1996, the number of new additional lines increased 152 percent compared with new growth during the same period last year. "In the consumer market, these increases are being driven by growth in demand for Internet access, fax machines and home computers, as well as other user segments where we've focused our marketing efforts," Dorman explained. "Demand for additional lines will, in turn, drive growth in custom calling features, such as Call Waiting." He also mentioned that targeting existing second-line customers to stimulate third-line use is a fertile market to prospect.

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Innovative Marketing

Pacific Bell has reaped solid financial returns from its custom calling services, especially with the marketing of Call Return. The service gives customers new levels of convenience by enabling them to return the last call made to their number by dialing *69 -- without purchasing additional equipment. "We introduced Call Return on a 'pay per use' basis in April and during its first two months it generated more than \$5 million per month in billable revenue," noted Dorman.



Unprecedented access line growth is fueled by innovative marketing. (TV still from ad campaign)

The company introduced Caller ID on July 8 and anticipates \$50 million in annual revenue from the product in two years.

To help protect its embedded base, in May the company launched the industry's highest-value loyalty program -- Pacific Bell Awards -- which rewards customers for all their use of company products. "We've differentiated Pacific Bell Awards from competitors' programs by making it more meaningful to customers and operating it at a lower cost to us," Dorman explained. The company has partnered with more than 20 companies in the travel, entertainment, retail, and computer equipment businesses to encourage customers to stay with Pacific Bell. Dorman expects the program to exceed 500,000 members in July.

Pacific Bell has secured a strong position among business customers by segmenting vertical markets and packaging services for specific industries, such as health care and entertainment. "Because of the popularity of managed care in California -- and the clustering of entertainment production facilities in the Los Angeles area -- these customers have a strong local centrality to their communications requirements," Dorman said. "We're developing a number of applications to meet their unique needs."

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Demand for Data services

"In California, we're seeing a dramatic increase in the consumption of high-capacity data products, due to increased LAN traffic, desktop applications and demand for Internet access," Dorman pointed out. Since the start of 1996, Pacific Bell has experienced accelerating demand for data services. The number of new lines placed in service for Integrated Services Digital Network (ISDN) -- ideal for high-speed telecommuting and Internet access -- grew 118 percent compared to the same period of 1995. The company now has more than 65,000 ISDN lines in service. Demand for high-capacity T-1 service also grew, adding 10,000 new lines (a 150 percent increase in new lines over last year's total), as more small businesses created World Wide Web sites to reach customers. Pacific Bell also provided DS3 (45Mb) capabilities to 798 more lines -- a 184 percent increase compared to 1995.

Through aggressive marketing, more customers are discovering the advantages of Pacific Bell's switched data services -- ISDN, Frame Relay, SMDS, and ATM. "We're seeing triple-digit growth across our FasTrak service family and expect an annual run rate over \$100 million by the end of third quarter for these products." Pacific Bell also anticipates introducing XDSL -- a service that will enable very high-speed data and Internet access over a copper network next year, and will be highly competitive with cable-modem technology.

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Strong Brand Equity

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World's Best Long Distance Market

"We believe California is the best long distance market in the world," Dorman said. "Some 47 percent of all California calls originate and terminate in the state, and nearly 25 percent of all U.S. intraLATA and interLATA toll calls originate here. International calls from the state represent \$2.3 billion. Together these create a \$7.3 billion market, growing at a rate of six percent annually"

Dorman noted that it is easy to underestimate an RBOC's will to win in the battle for long-distance share. "From our perspective, the much ballyhooed marketing advantage given to the IECs is misunderstood. In the consumer market in particular, very few people -- not thousands -- make the difference, in terms of solid quality consumer marketing. We've built a very capable consumer marketing team to take on the IECs on our turf."

On July 9, Pacific Telesis and SBC announced they have signed a memorandum of understanding with Sprint covering wholesale long-distance services. "By pooling our purchasing power, we've managed to negotiate long-distance connections much more cost-effectively," Dorman said.

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Positive Public Policy Changes

"We hope to be granted long distance authority by the end of first quarter 1997."

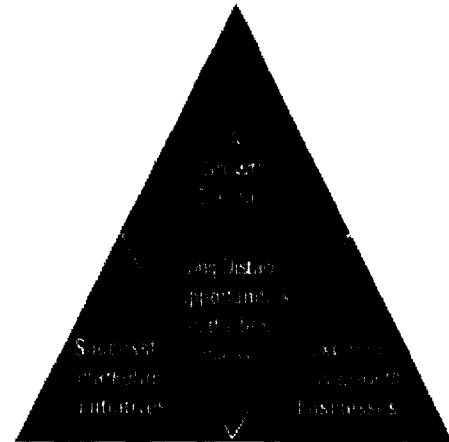
"On the regulatory front, we're optimistic about changes in policymakers' attitudes toward deregulation and competition," Dorman pointed out. Since 1995, the California Public Utilities Commission (CPUC) has introduced local toll and facilities-based local competition in California and suspended the five-percent productivity factor in its price cap formula.

While there has been limited resale activity since the CPUC issued its resale order in April, Pacific Bell expects AT&T to begin marketing in August, with Sprint and MCI following in September. Traffic is now flowing between networks, with 6,000 interconnecting facilities ordered.

Pacific Bell is moving ahead to meet all requirements for entry into the long distance business. The company has completed partial checklist agreements (an FCC requirement for long distance entry) with MFS, MCI, TCG, Brooks Fiber, ICG, Pac West, and

Continental Cable. Contracts are already complete and full checklist agreements exist with TCG, TCI and Cox Cable. Additional negotiations are under way with AT&T, Sprint and others. "We believe we have a good case for petitioning the Federal Communications Commission for our entry into long distance, once rules are established in August," Dorman said. "At this rate, we hope to be granted long distance authority by the end of first quarter 1997."

Following his presentation, Dorman responded to several questions from analysts. Topics ranged from the status of Pacific Telesis' emerging lines of business -- video services and wireless PCS -- to universal service and other outstanding public policy issues, to the cost-cutting results of Pacific Bell's ongoing core process reengineering program. Dorman's answers echoed the messages of his presentation: that Pacific Telesis' diversely experienced management team has strategies in place to capture the many opportunities for growth in new and core businesses that lie ahead.



Pacific Telesis core business is healthy and well positioned for competition

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As prepared for delivery

Raymond W. Smith
Merrill Lynch Telecommunications CEO Conference
New York, March 19, 1996

"Creating Shareowner Value in a Converged, Post-Legislation Environment"

[Introduction by Daniel Reingold]

Thank you, Dan, for the kind words and for the opportunity to speak at this conference.

We stand at an especially exciting time in the history of both the industry and Bell Atlantic. Not only are we coming off a record-breaking year of double-digit earnings growth, but enactment of telecommunications reform legislation in 1996 has put our industry on the cusp of an exciting new cycle of innovation, competition and expanded growth opportunities.

The pending re-classification of Bell Atlantic and the other RHCs from utilities to S&P 400 industrials attests to the fact that we are now operating under a very different risk-return equation -- one that incorporates both new growth opportunities and very few guarantees.

I, for one, am very pleased with this proposition, recognizing, of course, that the war is far from over.

Analysts -- Dan, foremost among them -- have declared the local exchange companies the "winners" of the battle for telecommunications reform. But, as Dan has also observed, value creation going forward will take more than winning new public policy -- it will require winning the hearts and minds of customers in key market segments, providing them with the right products and services at the right prices.

Recent trading activity shows that the market is having great difficulty assessing the prospects for value creation, at least for my end of the industry. In the 12 months preceding President Clinton's signing of the bill, shares of local exchange carriers soared 35 percent, but then fell in a sharp sell-off across the whole group. We've seen more volatility in one month than we used to see over several years.

So as significant as legislation is, it has not dispelled confusion and uncertainty in the minds of our investors. Are we simply re-living the airline industry following deregulation, or are we on the verge of a paradigm shift as market dynamics and technology create a whole new growth industry?

The answer lies in the fact that in reality, legislation pales in comparison with the market forces that are shaping our industry:

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- The explosion of Internet usage, and ongoing lifestyle changes such as work-at-home, driving data connectivity demand in the mass market;
- A whole range of interactive information and entertainment services enabled by digitization and on-line delivery;
- And **brand-new** opportunities to package and provide products and services directly to end-users, thanks to the convergence of the cable, telephone, long-distance and data connectivity businesses.

If anything, the new law removes the barriers and structural imbalances between industries so we all can go about the business of addressing these market opportunities.

Today, I want to present at least a broad-brush business case for why the future look very bright for Bell Atlantic.

- First, we're in a business that will outgrow the GNP for the foreseeable future. The belief that the competitive marketplace will be characterized by undifferentiated products and commodity prices reflects a gross misunderstanding as to where we are in the industry life cycle curve. Telephony, broadcasting and cable may be mature, but Internet connectivity and interactive video and information services are new businesses at the very beginning of their cycles.
- And second, our productivity gains will outpace industry in general for some time to come. We're deploying increasingly sophisticated operating technologies that in the near term will significantly lower unit costs and enhance profitability. In the long term, our continued development of more efficient technologies will drive costs down even further.

Bottom line -- this is a great business, it's a great time to be in it, and the opportunities for value creation are tremendous.

In the new paradigm of convergence, the type of growth we'll see will be different from what we've seen throughout our history. Increasingly vertical, and less a function of traditional drivers such as household formation and employment gains, it will offer the prospect of richer margins and faster growth than the "old" business.

That means the successful companies will be the ones who can package services attractively and market them compellingly to consumers, to small businesses, to all of our key market segments. Bell Atlantic will be successful because we've prepared our company to be first in the marketplace with a full set of differentiated services -- from ISDN to digital cable to advanced call management features.

The effect of this evolving vertical growth paradigm on shareowner value creation opportunities will be profound. Today's simple models, using traditional variables such as market value per access line, seriously understate the tremendous potential of our business to increase cash flows in the core network business. Therefore, they understate long-term values. To really understand these values, investors must insist on market-specific analysis, as the competitive strategies, market opportunities, and value drivers are quite different

in different segments.

To illustrate this point, let's analyze the growth renaissance in the consumer marketplace, which accounts for roughly a third of Bell Atlantic's revenues and 20 percent of operating income. This market has traditionally been our lowest-growth, least-profitable segment, yet it represents some of our best opportunities for value creation going forward.

Here, we are already experiencing rejuvenated revenues and margins -- the first concrete evidence that the marketplace is coming alive. Bell Atlantic achieved 5 percent revenue growth in 1995, net of price decreases. In 1996 and beyond, the goal is 5 percent without price qualification. Keep in mind that this is before contributions from our new long distance and video businesses, which will kick in in the 1997-98 time frame.

Access lines has been the fundamental factor in revitalized network growth, but not the access lines you may be accustomed to considering. Almost all of the growth we see is from households adding second and third lines, accompanied by vertical services such as Answer Call and Caller ID.

In 1995, sales of secondary lines at Bell Atlantic increased more than 50 percent, fueled by surging demand for Internet and telecommuting applications.

Unlike traditional horizontal line growth, which would have significantly added to our capital expenditures, the vertical growth we experienced in '95 brought most of the revenues down to the bottom line. That's because we were able to provision new lines and services from idle capacity in an existing plant.

With a switched digital broadband architecture, we'll be able to provision second and third lines at about a fifth the cost of a traditional primary line.

And, with the use of plug-in electronics going forward, that lower capital expenditure will be closely matched to what customers demand rather than tied up in a fixed-cost architecture.

Our goal for 1996 is to install at least 600,000 new secondary lines. By 2000, we believe applications such as Internet, on-line services, telecommuting and remote teleconferencing will put additional lines into between three and four million Bell Atlantic homes, boosting penetration from 13 percent today to 30 percent or higher. The result will be significant incremental revenues from new access lines in existing -- not new -- customer accounts.

Just as second cars were a consumer staple back in the '60s and '70s, additional phone lines are becoming the "must have" consumer item of the '90s.

Hand-in-hand with the growth in secondary lines has been strong growth in demand for value added services. In 1995, revenues from vertical services such as Caller ID, Voice Messaging and Call Waiting rose more than 15 percent. We expect 20 percent growth this

year.

- Caller ID achieved 12 percent penetration in 1995 and should go on to reach above 30 percent in five years;
- Voice messaging has become the accepted call management standard in the business market; we expect it will follow the same path on the residential side;
- And new services such as voice-activated dialing and Internet access will continue to prime the revenue growth pump and raise the bar for our competitors.

With only these two drivers -- additional lines and value-added services -- we expect growth in secondary residential lines and value-added services to drive revenues per Bell Atlantic household from \$27 today to above \$50 by the end of the decade.

By themselves, these opportunities are exciting, but the profit potential per household really opens up when we add the new opportunities -- long-distance, data connectivity and video -- to the package.

* * *

We find ourselves very well positioned to capture significant share in long distance and video, where we're starting from zero and in data connectivity, which is a relatively new consumer market. We're entering these markets from a position of strength in the local exchange, with a trusted brand name and access to virtually every household. Now that the straitjacket is off, we face a second growth wave if we do a good job of leveraging our position with customers -- and we will.

Let's begin with long distance. At divestiture back in 1984, the revenue per household pie was divided just about in half. Long distance was snatched away from us and given to AT&T.

With the passage of legislation, Bell Atlantic suddenly has a clear path into the long distance business - an opportunity to reap sizable incremental revenues and earnings at modest or nominal cost.

Early on, we will cut our teeth as resellers in select out-of-region markets. So far, we've filed applications with regulators to provide long-distance service to customers in Illinois, Texas, North Carolina, South Carolina and Florida. While we will be a niche provider, we will fine-tune our customer care strategies along with our acquisition, billing and collection processes. This will be our boot camp, if you will.

Once we've passed all the necessary tests, we can focus our attention on in-region entry. Collectively, our regional markets generate more than \$10 billion worth of long-distance traffic. Within five years of entry, our goal is at least a 20 percent share of that. Near-term, we have an opportunity to almost double revenue per household. This opportunity comes with strong incremental margins and almost no incremental capital investment.

In the \$4 billion in-region cable market, likewise, Bell Atlantic is

starting from zero share. Our region boasts a high rate of cable penetration -- on the order of 70 percent -- and we expect household penetration for all video products to grow to 85-90 percent by the end of the decade.

We think we can capture one-third to one-half of that market within five years of entry, depending on our delivery platform and the market demographics. Recent market trials -- both in our territory and elsewhere -- suggest that these goals are modest and easily achieved. We expect to exceed them.

In addition, video on demand will give us a far-superior alternative to video rentals, a \$2 billion in-region market. Data from our Northern Virginia interactive television trial suggest that customers will buy between three and four videos per month on a true video on demand system. In other words, a viable economic market for interactive entertainment services is here *today*, waiting for the company savvy enough to penetrate it.

Finally, consumer data connectivity is still very early in the product life cycle. Penetration of 14.4 and 28.8 PC modems is still under 20 percent, but growing fast. As I mentioned, customers increasingly want Internet access, LAN connectivity and telecommuting capabilities. As these applications become part of everyday life, users will soon become impatient with today's modems and demand much greater bandwidth. This pent-up demand is already bubbling to the surface.

As the leader in ISDN deployment -- with about a third of total lines in service in the United States -- Bell Atlantic will offer a family of products to address the entire range of connectivity and bandwidth needs. By 2000, we're targeting well over one million customers of ISDN - which offers 128-kilobit switched connectivity using worldwide standards. We began introducing residential ISDN regionwide last year, and this year, we'll complement it with Internet access.

One step up the bandwidth chain is ADSL, which provides speeds of 1.5 to 6 megabits over conventional copper wiring. Having deployed ADSL successfully in our Northern Virginia VOD trial, we will continue investigating its application to the data market this year.

1996 will also mark the beginning of our large-scale deployment of switched digital broadband fiber-to-the-curb, which will offer virtually limitless speeds and capabilities. We're planning to break ground in the six top markets in the Bell Atlantic region, starting with Philadelphia.

To sum up, then, we're beginning a second growth curve across all telecommunications markets. And nowhere is the opportunity more robust than in the consumer marketplace. Conventional wisdom has said that competition and price discounting will erode the local phone company's margins in the this market.

This is misguided thinking. Given the ability to package and provide a far more diverse product mix without higher levels of capital investment, we have an historic opportunity to make the consumer

marketplace a growth engine rather than a stagnant, subsidy-laden slow-growth business.

Moreover, the key will not necessarily be overall market share in any one product, but how successfully we target high-end users with a full spectrum of services. You certainly won't control it with single-product "cherry-picking" strategy. Marketing a full package is the key to high margins, since it lowers cost of goods sold, increases penetration of value-added services and cements customer loyalty in an environment in which managing churn will be one of the keys to profitability.

* * *

The question, then, becomes which companies are in the best position to put together the most attractive package of services and maximize margin per household. The answer depends on three factors:

- Deployment of technology platforms that support the broadest array of communication, information and entertainment services;
- The ability to enter new markets quickly to round out the full-service package; and
- The development of operational systems that will handle the complexities of packaged service delivery and ensure the highest standard of customer service.

Let me tell you where Bell Atlantic stands in each of these areas.

First of all, the ultimate network solution we've chosen is switched digital broadband (fiber to the curb), which best serves the entire spectrum of high-end market requirements, including secondary phone lines, data connectivity and digital video.

Switched broadband offers superior capital returns, higher margins, and better productivity than the hybrid fiber-coax alternative. What's more, its deployment is part of our ongoing network modernization. We can build this network within current book depreciation levels.

Second, over the last five years, we've made use of off-Broadway market trials and service introductions in select markets to prepare our company for quick entry into the video, interactive and long distance markets.

- Our Northern Virginia interactive television trial is giving us valuable information on customer behavior that will lead us to a faster, more robust market entry.
- Our video dial tone initiative in Dover Township, New Jersey, is an important testbed for the switched digital network platform.
- And, as I mentioned, we'll be introducing out-of-region long-distance service before the end of the first half of this year to sharpen our skills in preparation for in-region entry. You'll continue to see announcements of further packaging initiatives over the next 12 to 18 months as we prepare for in-region long-distance entry.

Third, we continue to re-tool our systems for provisioning, billing and maintenance to make them less labor intensive, more responsive, more customer-friendly, and above all, sophisticated enough to meet full-service network information needs quickly and efficiently. We've spent more than \$500 million developing these systems and with deployment under way, they're starting to improve business performance and dramatically cut expenses.

In short, Bell Atlantic has invested heavily in past years in building new operational systems, developing new competencies to access new business opportunities, and cutting prices and improving quality in anticipation of competition. Much of what we've done has been at the expense of maximizing short-term earnings.

Today, we strongly believe that payoff time is at hand.

Over the next 12 to 18 months, we will be pursuing four key operational and strategic priorities to solidify our leadership in the newly converged marketplace.

First, we will move quickly to get through all of the regulatory gates to enter the long-distance market in each of our states. We've already begun negotiations with new local carriers for the interconnection agreements necessary to meet the competitive checklist. Because of the excellent working relationships we enjoy with our state commissions, we're confident we can secure checklist approvals with minimal delay.

Second, we will continue expanding the data connectivity market with ISDN and other bandwidth products that will capture significant customer share before competitors such as cable modems can get off the ground.

Third, we will aggressively reduce costs to attain the low-cost provider position in the marketplace. In 1995 we assumed industry leadership in cash expense per access line. This year, we intend to reduce employees per 10K access lines to 26.5. Bottom line -- we will take another \$300 million in expense out of our network business this year alone.

Fourth and finally, we will expand and improve our sales channel mix. One way will be to partner with vendors and suppliers, as we've done with Microsoft and U.S. Robotics in the co-marketing of ISDN service.

We also expect to establish local resale as a major line of business. We believe competition will expand the market pie the way it did in long distance, stimulating total market growth from cellular, PCS, video and new local landline providers. Our goal is to make our network, our switching, and our value-added wholesale packages so attractive and so cost-effective, carriers would rather **buy** and **build**.

* * *

This is the foundation upon which Bell Atlantic will execute our basic strategy for value creation in a converging world.

To sum up, we've worked very hard for many years to achieve leadership in the competencies we see as critical to sustaining growth and maximizing shareowner value:

- Ability to segment the marketplace, identify key buyer groups, and develop and tailor packages for the high-value customer;
- Readiness to enter new businesses with differentiated products that will complete the full-service package;
- And technological capabilities that meet the full spectrum of customer needs while maximizing margins.

For Bell Atlantic, the market opportunities are especially attractive due to the high concentration of high-end users on the East Coast. As margin per household becomes a new growth benchmark, the quality of a company's customers will be a significant valuation factor.

Today, I've focused primarily on the core network business, as I think the opportunities there are not well understood. You'll see significant operating income growth in the 8 percent range for this business in 1996 and '97 while we continue to absorb start-up costs for long-distance and video.

In 1998, I think we'll all be surprised by the earnings power unleashed in our core business by full access to the converged marketplace.

* * *

I don't want to conclude today without some discussion of our wireless business portfolio, which continues to contribute close to 50 percent of our overall 7-10 percent targeted earnings per share growth.

With well over 87 million worldwide POPs, we anticipate wireless contributions to continue to be significant for the remainder of the decade.

- Our domestic cellular business is off to a terrific start in the first quarter, with strong growth and robust revenues.
- Omnitel in Italy is doing very well, with well over 40 percent of the GSM market only three months after entry.
- And PCS PrimeCo will launch commercial service in time for the Christmas 1996 season.

With a major presence in both domestic cellular and PCS, and a significant international presence, our portfolio should demonstrate strong growth as the market evolves.

In short, Bell Atlantic is off to a very strong start in 1996 and should register EPS growth at the upper end of our 7-10 percent objective. We also feel very good about the prospects for 1997. Beginning in 1998, as the full impact of the converged marketplace takes hold, we'll face the prospect of better than 10 percent growth for a long time to come.

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News Release

BellSouth Reports Fifth Consecutive Year of Earnings Growth

***Increase in access lines sets fourth annual record in row;
Wireless customers worldwide surpass 6 million***

For Immediate Release:

January 22, 1998

ATLANTA — BellSouth Corporation (NYSE: BLS) reported 12.5 percent growth in earnings per share (EPS) for the fourth quarter of the year, excluding special items. It was the fifth year in a row of improved operating results for BellSouth. For the full year, EPS improved 12.3 percent, excluding special items which increased reported EPS by 45 cents.

Fourth quarter EPS was a record 72 cents in 1997, not including a gain of 2 cents on the sale of BellSouth's interest in Bellcore, a telecommunications research company, and a charge of 1 cent for retiring long-term debt early. EPS in the fourth quarter of 1996 was 64 cents.

"Our earnings momentum continues to be a direct result of executing our three strategies," said Duane Ackerman, BellSouth's chairman and chief executive officer. "By focusing on what our customers need, we're driving record growth in our nine-state telecommunications region, growing our domestic wireless business profitably, and expanding our international businesses, primarily in Latin America. That focus and execution result in continued strength in earnings."

For the fourth year in a row, BellSouth set a record for the number of new access lines. Growth was driven by continued success in marketing additional lines and by a strong regional economy in the South. The company added 1,066,000 lines in 1997, including an unprecedented 233,000 during the fourth quarter. The 4.8 percent annual growth in total access lines is the highest for any calendar year in the company's history.

Residential lines grew 4.6 percent in 1997, also a record pace, and business lines grew 5.3 percent to more than 7,088,000. The company's 15.8 million residential lines include nearly 1.9 million additional lines. Promotions keying on customers' demands for Internet access, children's phones, fax machines and other work-at-home tools have helped boost the penetration of additional lines to about one in every seven BellSouth residential customers.

Sales of BellSouth's telephone calling features continued to grow rapidly. Revenues from services such as Caller ID Deluxe and

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EXECUTIVE SUITE

WHO WE ARE

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INVESTOR INFO

PUBLIC POLICY

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MemoryCall® service voice messaging were \$346 million in the fourth quarter of 1997, up 20 percent from the same three months of 1996. For the full year, calling feature revenue grew 24 percent to \$1.3 billion in 1997.

With demand for sophisticated, secure data services exploding in all market segments, BellSouth tailors more than 80 of these products to the special needs of large and small businesses, as well as to consumers. Revenues from BellSouth's digital services for business customers were \$1.3 billion in 1997, up 27 percent from 1996.

BellSouth's wireless customer base worldwide grew by 33 percent during 1997. In the U.S., the company's cellular and PCS businesses added 149,000 customers during the fourth quarter, and ended the year with 4.2 million. For the year, BellSouth's domestic wireless operations grew by 550,000 customers, or 15 percent.

In BellSouth's 13 international cellular markets, customers more than doubled for the year, growing 107 percent to 1,882,000. BellSouth passed the million customer milestone in Latin America, where customers increased 131 percent.

BellSouth's fourth quarter consolidated revenues of \$5.6 billion increased 10.9 percent compared with the same quarter of 1996. Total operating expenses increased 7.9 percent. These results include for the first time certain international operations that previously had been reflected only in other income. As a result, fourth quarter revenue and expense growth rates increased by approximately 2 to 3 percentage points.

Net income in the fourth quarter was \$729 million, including \$23 million from the gain on the Bellcore sale, partially offset by a charge of \$9 million for retiring the debt. Net income in the fourth quarter a year ago was \$633 million.

For the year, BellSouth's revenues of \$20.6 billion were up 8.0 percent compared with 1996. Total operating expenses increased 6.5 percent, as the company's telephone operations moved to the top of the industry in employee productivity.

Excluding special items in both years, EPS in 1997 was \$2.84, compared with \$2.53 in 1996. Including the special items, reported EPS was \$3.29 in 1997, compared with \$2.88 in the previous year. Net income excluding special items was \$2.8 billion in 1997 compared to \$2.5 billion in 1996. Reported net income in 1997 was \$3.3 billion versus \$2.9 billion in 1996.

BellSouth is a \$20 billion communications services company. It provides telecommunications, wireless communications, directory advertising and publishing, video, Internet and information services to more than 29 million customers in 20 countries worldwide.

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NOTE: For more information about BellSouth, visit the BellSouth Web page at <http://www.bellsouth.com>. Also, BellSouth news releases dating back one year are available by fax at no charge by calling 1-800-758-5804, ext. 095650.

A list of BellSouth Media Relations Contacts is available in the Corporate Information Center.

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